Daikin Industries, Ltd.

Sustainability Briefing

January 15, 2026

Event Summary

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[Number of Speakers]	5

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Kota Miyazumi	Senior Executive Officer, Responsible for Corporate Communication
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Presentation

Monri: Ladies and gentlemen, thank you very much for joining us today.

We will be holding a sustainability briefing from now on.

The presentation material can be found on our website under investor relations and will also be projected on the screen at the venue and on the Zoom screen. Please have them on hand if necessary.

Here are today's speakers.

Yoshiyuki Hiraga, Senior Executive Officer, Responsible for Chemical Division. Yasuhisa Hirao, General Manager, Chemical Division. Tadashi Ogawa, Department Manager, Planning Department, Chemicals Division. Keiko Washino, Department Manager, External Public Affairs Group, Chemical Division. Kota Miyazumi, Senior Executive Officer, Responsible for Corporate Communication.

I am Monri of the Corporate Investor Relations Group, and I will be your moderator for today's meeting. Thank you very much for your cooperation.

Today, you will first watch an introductory video about our chemical business, followed by an explanation by Mr. Hiraga along with the presentation material. The combined 45-minute presentation will be followed by a Q&A session. The end time is scheduled for 4:00 PM.

Now, please watch the video.

Video: Osaka, 1924. Founded primarily on the manufacture of airplane parts, Daikin Industries has expanded its business with the development of Japan's first commercial air conditioner. Today, we are the only global manufacturer of both air conditioning equipment and refrigerants. Company-wide sales are more than JPY4 trillion. Overseas, we have made great strides, operating in more than 170 countries and regions.

Starting with the development of Japan's first fluorocarbon gas for refrigerants in 1935, the fluorochemical business has expanded its technology and created numerous products over the past 90 years.

The field has now expanded to include not only major industrial fields such as automobiles, semiconductors, and electronics, but also the familiar world of daily necessities and infrastructure, as well as advanced scientific fields such as batteries, energy, life science, and aerospace.

What we have cultivated over our long history of research and development is material design technology that creates optimal properties for our customers. Our processing technology and technical services maximize the performance of the material. Technology to analyze, evaluate, and simulate whether performance is being expressed as intended from the material design stage to processing. Our greatest strength is our ability to propose solutions through the integration of these technologies. No matter how high the hurdle needs are, we continue to challenge ourselves to create specifications that exceed them.

The resulting products, such as fluoropolymers, rubbers, surface functional materials, and specialty products, provide a wide variety of solutions to industries worldwide. Our global network, which extends to Asia, North America, and Europe, is also one of our major strengths as a leading fluorochemical company.

With production bases spread across various regions, we have achieved a stable supply of products and established technical service labs and R&D centers close to our customers in order to quickly resolve issues. Through our global sales offices, we are close to our customers in each region to meet their needs.

Positively Innovative, proud of our products, our value, and our people, and committed to true innovation in order to contribute to our customers around the world with solid results. Under our grand vision, we will continue to provide new answers to the social problems we face and the severe needs of the times as a leading company of fluorochemicals and other high-performance materials.

Monri: Thank you for watching.

Now, Hiraga will explain according to the presentation material. Mr. Hiraga, Senior Executive Officer, please proceed.

Hiraga: Hello everyone. Thank you very much for joining us today. I will explain the current status of our chemical business and our efforts to realize a sustainable society.

The Chemical Division supplies materials essential to support the development of society and industry, including semiconductors, information and telecommunications, automobiles, medicine, and energy. Today, I would like to talk about the overall picture of this wide range of businesses and our growth strategy for the future, including the perspective of addressing environmental and social issues.

We would like to inform investors of the medium- to long-term growth potential of our chemical business and our efforts to comply with regulations and reduce environmental impact as concretely as possible. Although time is limited, we hope you will stay with us until the end.

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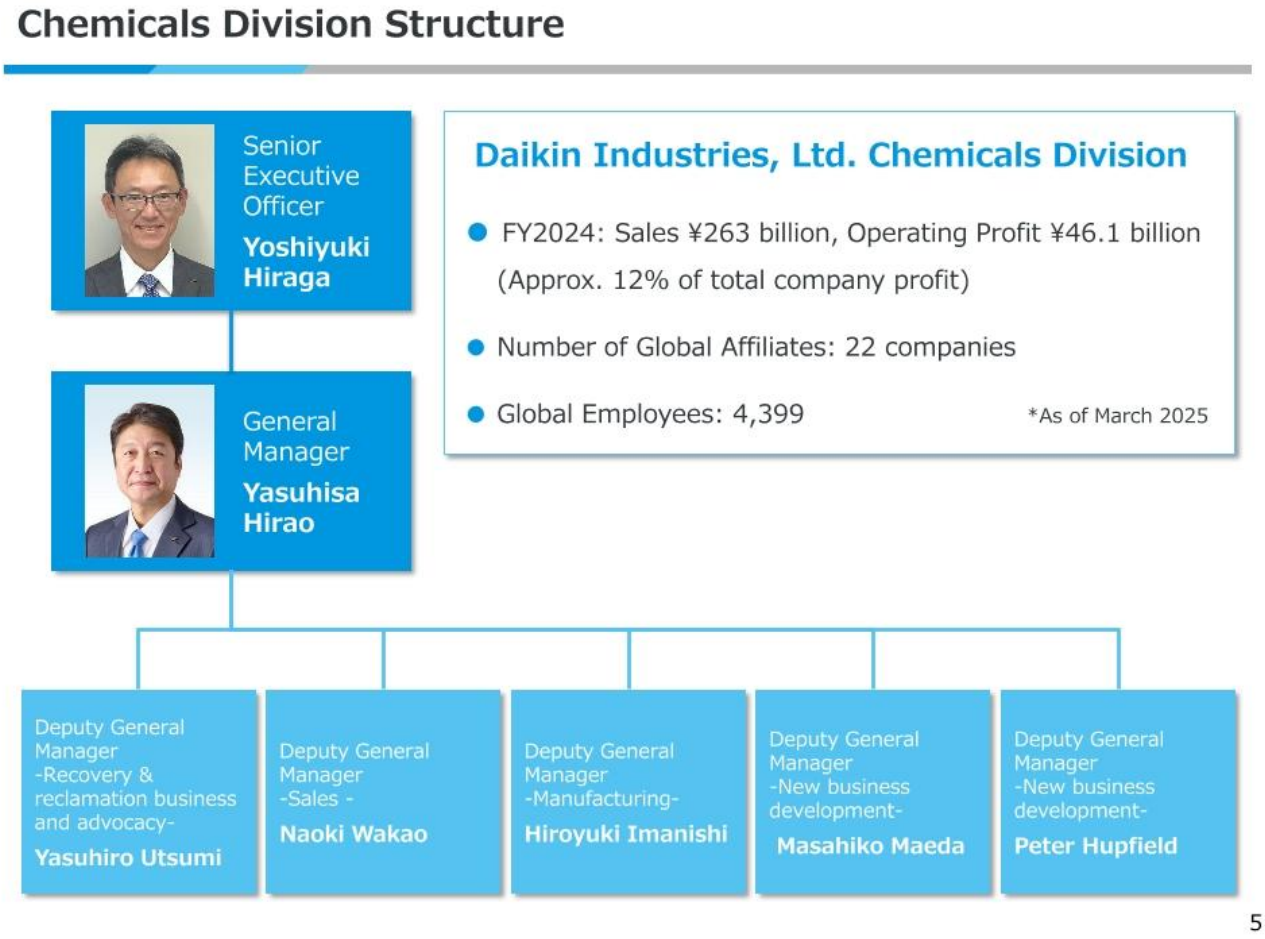
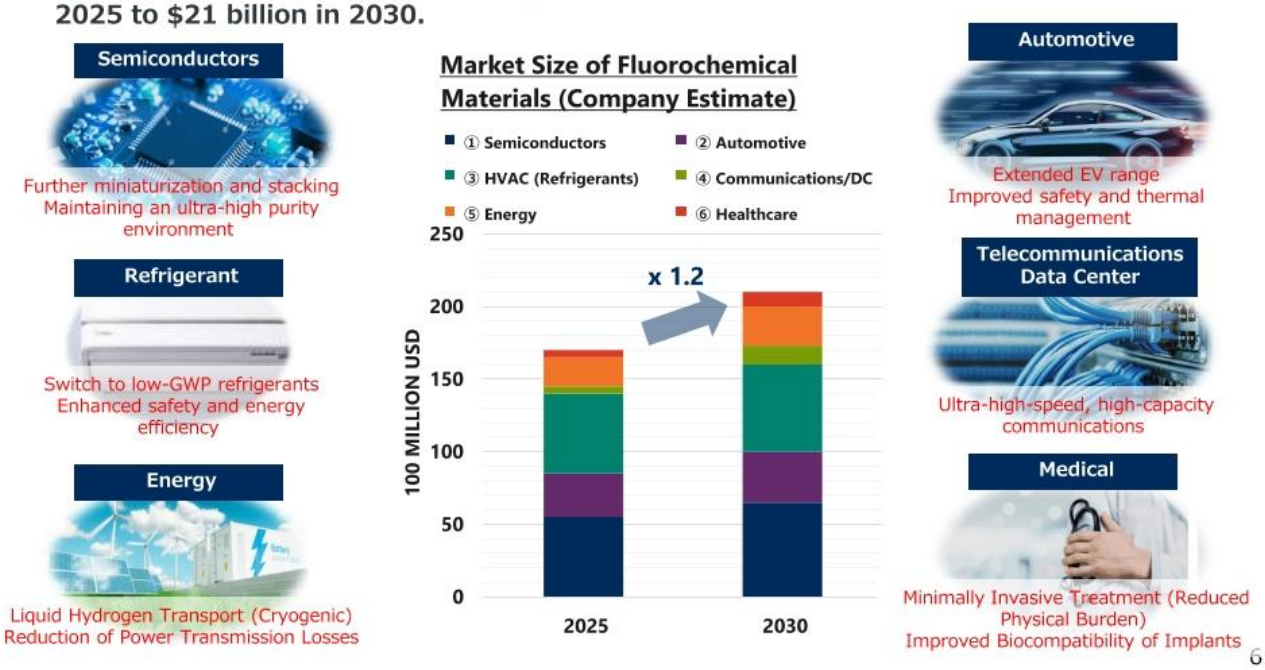
Let me begin with an overview of our chemical business.



The Chemical Division's net sales and operating profit for the fiscal year ended March 31, 2025, were JPY263 billion and JPY46.1 billion, respectively. Although sales of this business account for 6% of total company sales, it is a highly profitable business, and its operating profit accounts for approximately 12% of the Company's total operating profit.

As of March 2025, the Chemical Division had 22 global affiliates and approximately 4,400 global employees.

As for the organizational structure, we have appointed managers by function, such as manufacturing, sales, new business development, recovery/reclamation, and advocacy, to operate in a unified global manner. As the person in charge of chemicals, I oversee the entire business, and each of our bases works together to build a system that can respond quickly and consistently to changes in the market and our customers.



Next, I will explain the overall fluorochemical materials market.

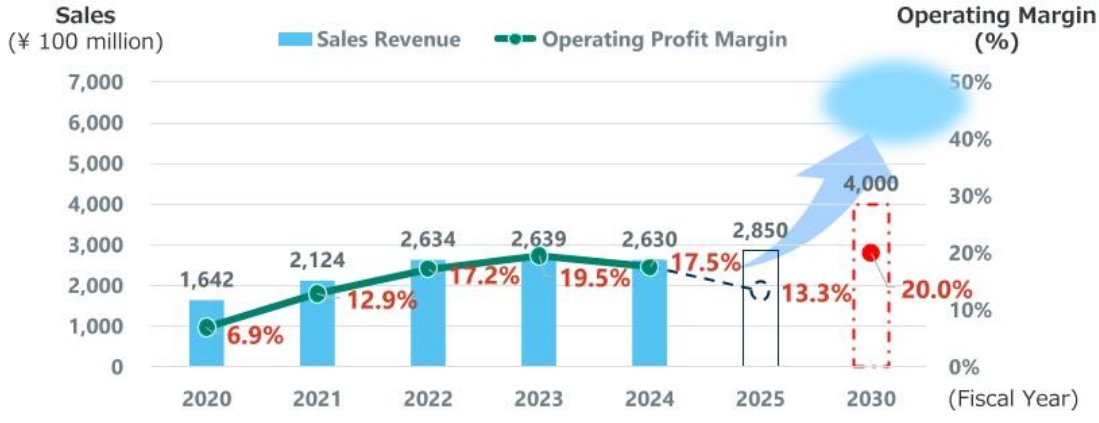
Fluorine materials are highly functional materials that support various advanced industries such as semiconductors, automobiles, telecommunications, medical, energy, and air conditioning/refrigeration. This is due to their high heat resistance and chemical resistance, as well as their non-adhesiveness that makes them "slippery and stain-resistant," insulation properties, and biocompatibility that does not burden the body. Details will be explained later. I will briefly discuss an example here.

In the semiconductor field, fluorine materials enable ultra-pure manufacturing environments in semiconductor plants due to their chemical resistance and ultra-cleanliness in semiconductor processes, where miniaturization is progressing to the limit. In addition, low dielectric properties are essential for high-speed communications in information and data center servers as they minimize signal loss to the utmost limit, supporting the infrastructure of the digital society. In the medical field, fluorine's low friction and slipperiness and biocompatibility enable safe and physically less burdensome treatment in medical devices such as catheters.

The market for such fluorine materials is expected to expand in size by approximately 1.2 times between 2025 and 2030. We are determined to capture this growth trend and expand our market share while maintaining and improving profitability.

Performance of the Chemical Business Division

- **Under "FUSION 25", the Chemical Business Division's strategy focuses on expanding fluoropolymer operations. In semiconductor and telecommunications applications, it leverages quality control and stable supply to improve operating profit margin.**
- Current-term performance is significantly impacted by slowing semiconductor demand, resulting in lower operating profit compared to the previous year. However, the division aims for record sales through expanded supply and sales growth of strong telecommunications products.
- **"FUSION30" will establish competitive advantage in fluorochemical materials through** development and supply capabilities that anticipate advanced needs in cutting-edge technology fields. Furthermore, as **the next growth pillar** beyond 2030, we will diversify **the materials portfolio** by developing new products and building supply chains **that convert environmental value into competitiveness in the gas business** and acquiring key materials beyond fluorochemical and advanced processing technologies, **securing stable sales and profits over the medium to long term. [2030 Target: Sales ¥400 billion / Operating Margin over 20%]**



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Next, I will review our business performance to date and our strategic management plan, FUSION25, and explain what we are aiming for in FUSION30.

In the Chemical Division's FUSION25, we have expanded our business with an emphasis on fluoropolymers, one of our strengths. We were able to improve our operating profit margin, especially in semiconductor and information and telecommunications applications, where quality control and stable supply are indispensable.

Currently, profits have been affected by a temporary slowdown in demand for semiconductors. However, we are aiming for record-high sales by expanding the supply of products for information and telecommunications applications and by expanding sales channels.

Under the medium-term management plan FUSION30 starting from FY2026, we will focus on three businesses as pillars of growth: the fluorine business, the gas business, and high-functional materials other than fluorine for the next growth.

In the fluorine business, the first pillar of our business, we will further refine the advantage of the world's top market share that we have cultivated to date and further solidify our foundation.

The second major pillar is the gas business. Currently, the global gas market is large, accounting for 30% of the total fluorine materials market. We are strongly promoting the development of next-generation dry etchant gases, which are indispensable not only in the refrigerant field but also in semiconductor manufacturing. Specifically, we will establish a position as a first vendor, collaborating with end-

manufacturers who lead the evolution of devices from the development stage to bring products to market as quickly as possible.

Furthermore, as the third pillar, we will acquire key materials with high functionality other than fluorine. We will make the most of the material development technology we have built up through fluorine materials and the pipelines we have built with our customers to deliver high-functional materials other than fluorine, thereby strengthening and broadening our contacts with the market.

By diversifying our business portfolio around these three pillars, we hope to achieve stable and high growth over the medium to long term, aiming to achieve net sales of JPY400 billion and an operating profit margin of 20% or more in FY2030.

Daikin Chemical's Strengths: Diverse Product Portfolio & Responsiveness to Market Needs

- **A comprehensive fluorochemical manufacturer addressing all customer needs, with an extensive product lineup covering everything from upstream to downstream**—including gas, resins, elastomers, film products, and fine chemicals—supporting processes in growth industries (e.g. semiconductors, EV).

Company	Gas (Refrigerants)	Resins (PFA, etc.)	Elastomers (O-ring, etc.)	Film Processed Products	Fine (chemical solutions)
Daikin Chemical	○	◎	◎	◎	△
Company A	◎	◎	△	○	×
Company B	×	◎	◎	○	△
Company C	◎	△	×	×	△
Company D	○	◎	○	◎	×

- **Centered on unique products**, we operate a high-profit business with **competitive quality and productivity in high-purity resins for semiconductors**. (Total sales of 5 products: ¥90 billion)

Product Name	Market	Example Applications	Market Share
Neoflon PCTFE (Fluororesin)	Semiconductor	Seat material for precision valves	**100%**
Neoflon PFA (Fluororesin)	Semiconductor	Tubes for High-Purity Chemical Supply Equipment	**50%**
DUPRA (Perfluoroelastomer O-ring)	Semiconductor	Sealing Material for Etching Equipment	**50%**
Neoflon FEP (Fluororesin)	Telecommunications	LAN Cables'/Data Centers Cables' Sheathing Material	**60%**
DAI-EL (Fluoroelastomer)	Automotive	Fuel Tubing/Gasket Material	**30%**

NEOFLON, DUPRA, and DAI-EL are a trademark of DAIKIN INDUSTRIES, LTD.

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From here, in four slides, I will explain our strengths, which are our competitive edge in realizing FUSION30.

The first is the most distinctive feature of our chemical business: an overwhelming lineup of products ranging from gases to resins, elastomers, processed products, and fine chemicals, as well as global technical support. With these lineups, we will establish a position as a comprehensive fluorochemical manufacturer that covers the entire process of growth industries such as semiconductors and EVs and responds to all kinds of consultations from customers.

The table at the top of the slide compares our company with other companies in each of the following categories: gas, resin, elastomers, film, and fine. We have earned a high reputation in multiple fields, and this breadth has led to the depth of our customer base and stable earnings.

In addition, as shown in the lower part of the chart, we have already developed a highly profitable business in growth areas with several product groups that have the top global market share, centered on our “only one” products.

The second strength of the Chemical Division is its global sales and technical services that meet the needs of customers with close ties to the local community.

We have sales and technical service offices in Japan, China, Asia, North America, and Europe, focusing on major semiconductor and automotive manufacturing regions. We provide technical support near our customers' bases and are ready to provide consistent support from the development stage to the start of mass production.

This global structure enables us to expand business opportunities and ensure a stable supply as a close and reliable partner for our customers.

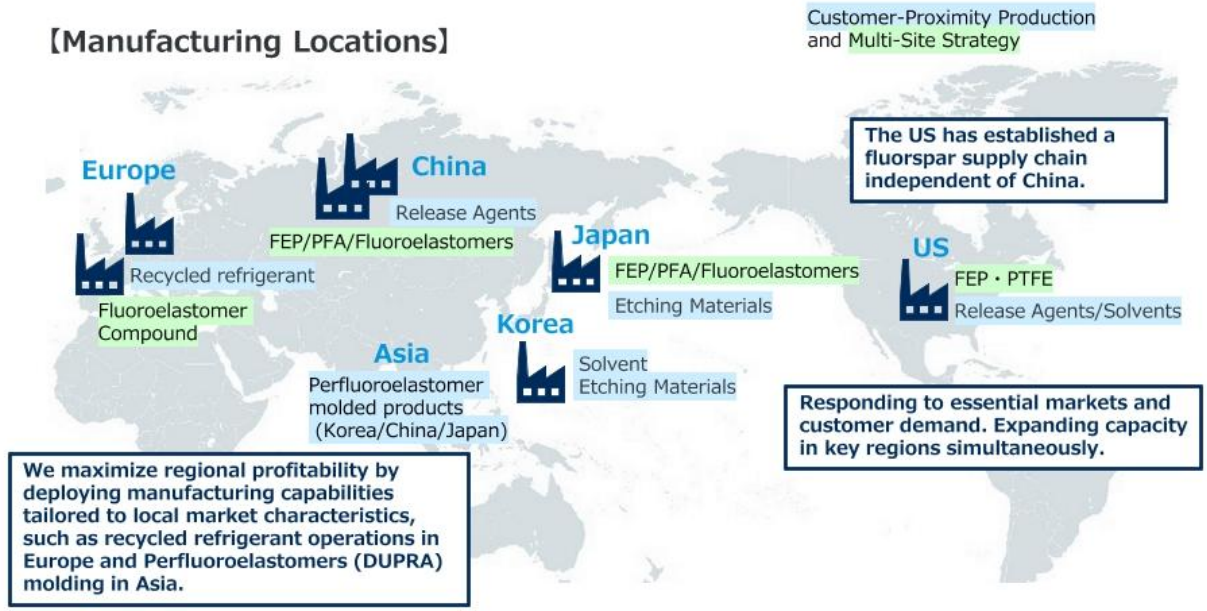
Another strength is global collaboration in product and application development.

Like our sales offices, we have established application development bases in four global regions and have built a system that enables us to quickly translate customer requests into products. By quickly identifying market needs, we can ensure to capture the timing of the inclusion of a feature into the specification and generational changes.

With Osaka, Japan, as the mother base for research and application development, the Innovation Center in Europe, the Development Center in the US, and the Application Development Center in Asia work together to accelerate development while sharing knowledge globally. This combination of field-based R&D and global collaboration is the source of our high market share.

Daikin's Strengths: Global Supply Chain and Stable Supply

- Anticipating geopolitical risks, we accelerate diversification of raw material sourcing and local production in key markets. Aggressive investments ahead of competitors enable us to build supply chain that supports expansion in essential markets. **This stable supply system underpins customer trust and high market share.**



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Our global supply network and stable supply system are also important strengths.

In anticipation of rising geopolitical risks and tight raw material supplies, we have aggressively expanded local production in key markets. By establishing manufacturing bases in Europe, China, Japan, Korea, North America, and other regions to diversify the securing of raw materials and optimize inventory and logistics, we are enhancing the stability of the entire supply chain and strengthening our business continuity.

This regionally distributed manufacturing structure enables us to ensure a stable supply that does not affect our customers' production plans and also allows us to respond flexibly to demand fluctuations in each market.

In addition, in emerging markets, we are building supply chains with the Global South in mind and diversifying our supply routes to prepare for heightened geopolitical risks.

II. Growth Strategy for the Chemical Business

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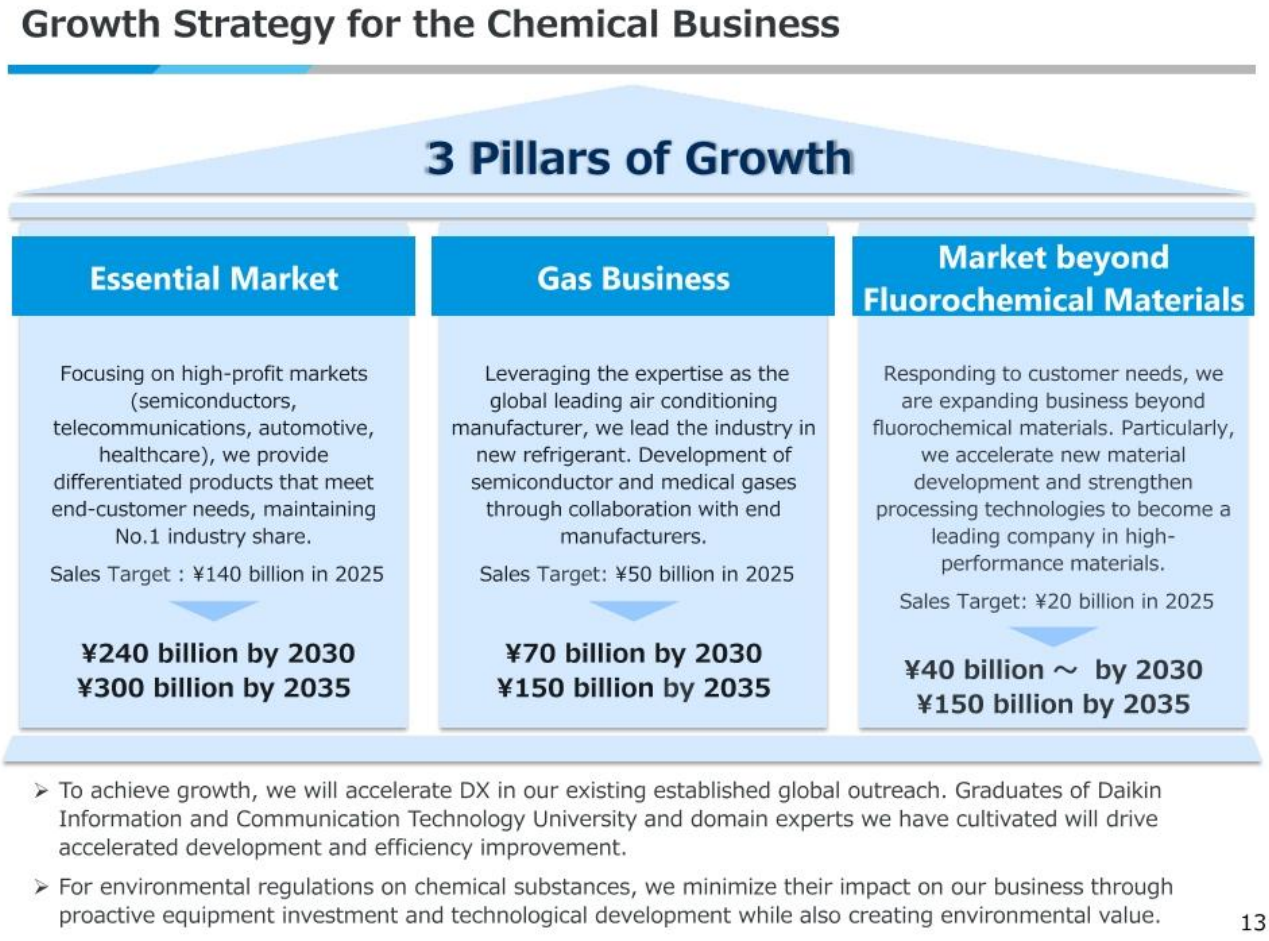
From now, I will explain the growth strategy of our chemical business.



First, let me reiterate the overall growth strategy and the three pillars of growth that I mentioned earlier.

The common concept behind the three pillars for future growth–expansion in the essential market, expansion in the gas business, and expansion in markets beyond fluorochemical materials–is to focus on materials that are essential to the technological evolution of our customers, rather than on commodity products that are prone to price competition.

The first pillar, expansion in essential markets, is where we will maintain and expand our industry-leading market share (No. 1) by providing differentiated products that meet the increasingly sophisticated needs of customers in the sectors supporting social infrastructure and lifestyles, such as telecommunications, automobiles, and medical equipment. We aim to grow sales from JPY140 billion in 2025 to JPY240 billion in 2030 and further to JPY300 billion by 2035.

The second pillar, expansion of the gas business, involves leveraging the expertise cultivated as a leading air conditioning company to grow our gas operations, including air conditioning refrigerants and etching gases. Our goal is to raise sales from JPY50 billion in the fiscal year ended March 31, 2025, to JPY70 billion in 2030 and to JPY150 billion in 2035.

The third pillar is business expansion in markets beyond fluorochemical materials. We intend to diversify our materials portfolio through the development of new high-performance resins and composite materials and M&A, thereby cultivating growth drivers independent of fluorine. Our goal is to raise sales from JPY20 billion in the fiscal year ended March 31, 2025, to JPY40 billion in 2030 and to JPY150 billion in 2035.

As a foundation to support these three pillars, we will further strengthen our already established global structure, DX, and collaboration with industry and academia to achieve both speedy growth and profitability.

In response to environmental regulations concerning chemical substances, we will minimize the impact on our business through proactive capital investment and technological development. At the same time, we will work to create environmental value to enhance our competitiveness.

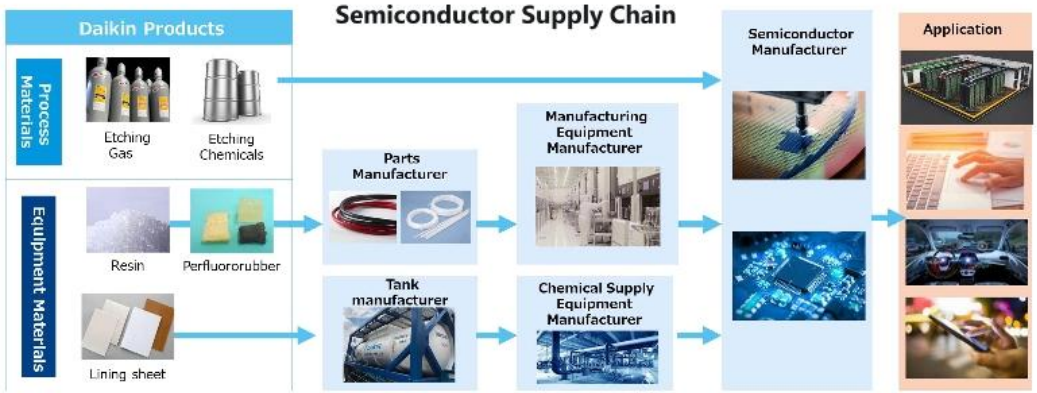
I will now explain the first of the three pillars, expansion in the essential markets, for each market.

We have a long history of working with customers in these markets to refine our technologies. Leveraging this relationship, we will be the first to propose new materials needed for next-generation products.

Starting from the next slide, I will explain the demand trends and our initiatives in the following order: semiconductors, information and telecommunications, medical, and automobiles.

Essential Markets: Semiconductors

- **The market size is expected to expand by 1.5 times by 2030. Our fluoropolymers hold the top market share in the industry** by the chemical resistance and cleanliness.
- As semiconductor manufacturing miniaturises, sealants materials that can withstand harsh conditions and ultra-high-purity etching materials are indispensable. We accurately capture the speed of technological innovation and offer new products with the indispensable features in a timely manner.
- We will drive forward the development of **new resins that meet low-permeability and anti-static requirements, alongside next-generation products that reduce environmental impact (low GWP)**.
- **We are strengthening ultra-clean quality control** (e.g., automated pellet inspection) to meet demands for even higher purity and **enhancing supply capacity** to further expand sales of our core products.



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First, initiatives in the semiconductor market.

The market for fluorine materials for semiconductors is expected to be a promising market that will expand by approximately 1.5 times by 2030 against the backdrop of higher device performance and miniaturization. The level of requirements for materials, such as chemical resistance, cleanliness, and low particle generation, is increasing year by year, and our fluoropolymers and fluorogases are able to meet these high requirements, maintaining the top share in the industry.

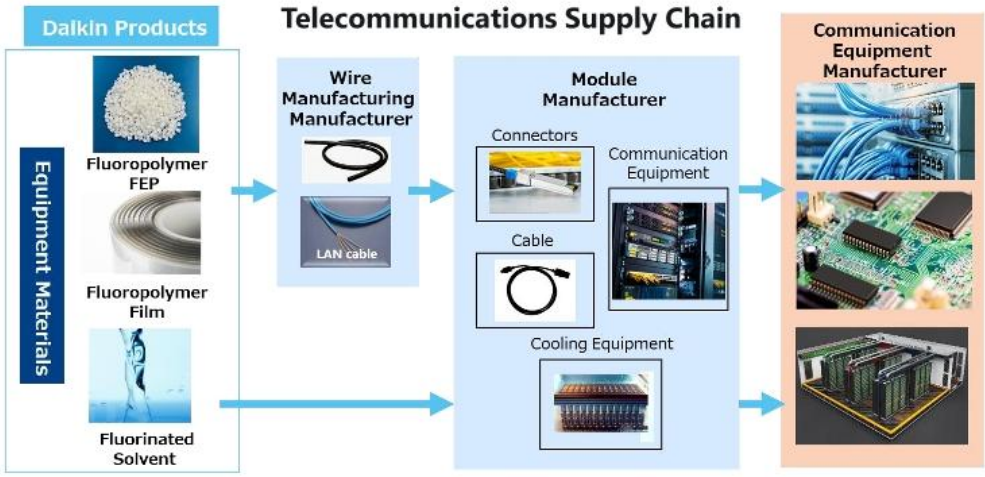
In the area of semiconductor manufacturing equipment, where miniaturization continues to advance, sealing materials that can withstand the extremely harsh conditions of manufacturing equipment and ultra-pure etching gases are essential. In order to accurately grasp the evolution and speed of semiconductor technology, we will anticipate next-generation needs by collaborating with end-manufacturers and bring new products to market in a timely manner. Specifically, we will contribute to the semiconductor manufacturing process by developing resins that meet new requirements such as low permeability that does not deteriorate performance even after prolonged use and anti-static properties to prevent product defects, as well as materials with a low global warming potential (GWP) and low environmental impact.

In terms of quality, we are also strengthening our ultra-clean quality control and augmenting our analysis and inspection systems to meet the high purity needs of our customers. We will strive to gain more trust throughout the supply chain.

Through these efforts, we will continue to maintain and strengthen our leading position in the semiconductor market.

Essential Markets: Telecommunications

- **The market size is projected to grow rapidly, reaching 2.5 times by 2030.**
- **Our fluororesin FEP holds the top market share, because for high-speed communication cable jackets due to processibility.** Our solution supports high-speed and highly reliable communication infrastructure by improving transmission quality.
- **We will solidify the top share in FEP for high-speed communication cable jacketing** by strengthening supply chain reliability through user support coordinated across our four global bases.
- **We will also accelerate the development of new materials and wire processing technologies to meet next-generation wire design requirements.**



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Next is the information and communications sector.

The market for fluorine materials for information and telecommunications is expected to grow rapidly by 2.5 times in 2030, backed by the rapid increase in the number of data centers and the spread of high-speed, high-capacity communications such as 5G and 6G.

In such an environment, communication cables and devices are strongly required to maintain stable communication quality with low noise and no signal weakening along the way. Our fluoropolymer FEP has been highly evaluated by our customers as a sheath material for high-speed communication cables because it has the property of suppressing signal degradation.

In addition, taking advantage of our application development system with four global locations, we are promoting joint development of new materials and processing technologies in cooperation with cable manufacturers and telecommunications equipment manufacturers.

This will expand the applications scope of fluoropolymers, including FEP, as mechanical and insulating materials for high-speed communications and solidify our leading market share. We will continue to contribute to the advancement of next-generation communication infrastructures by taking advantage of fluorine's characteristics of easy signal transmission even at high frequencies, high heat resistance, and weather resistance.

About markets beyond fluorochemical materials.

In the medical field, fluorine materials have been used safely for many years because of their characteristics, such as biocompatibility that do not burden the body, lubricity, and electrical insulation. The US Food and Drug Administration (FDA) has also highly evaluated the product, commenting that there is no other material that can replace fluorine materials. We will continue to provide fluorine materials in the medical device and diagnostic equipment fields, aiming to expand our business to contribute to society.

In the automotive field, demands for safety, longer service life, and higher electric capacity are rapidly increasing with the spread of EVs. We provide fluorine materials used for battery insulation, sealing materials, and cooling system components, which have been highly evaluated by the world's top battery manufacturers. We will continue to develop new materials that can withstand thermal management and higher voltages, and contribute to improving vehicle safety and reliability.

Next, I would like to discuss the expansion of the gas business.

We will continue to focus on the gas business as the largest area where we can create synergy between air conditioning and chemicals.

Gas Business: Development of New Refrigerants

- Due to global environmental regulations (the Kigali Amendment to the Montreal Protocol), **the currently mainstream refrigerants* (HFC) are being phased out.**
- **Leveraging our experience as the global leading air conditioning manufacturer, we are leading the development of the next-generation refrigerant.** Through the collaboration between HVAC business, as a user of refrigerants, and chemical business, which has strength in MI, we will develop new refrigirent and HVAC that reduce environmental impact.
- We have expanded new refrigerant (1132e) to EV and freezer, being evaluated by users.

*Refrigerants are vital materials, like the "blood" circulating within equipment to perform cooling and heating functions (directly impacting equipment performance). The Chemicals Division handles their production, development, procurement, and recycling.

Development of New Refrigerants (Next-Generation Refrigerants) ¥100 billion in 2035

✓ We offer a lineup of next-generation refrigerants that balance environmental performance and air conditioner performance according to application. (Evaluation and registration completed under ASHRAE, the global standard)

	R32	R479B	R479A	R474A	R474B	R290
GWP	675	299	147	<1	<1	<1
Performance	★★★	★★	★★	★★	★★	★★
Safety	Slightly flammable	Slightly flammable	Slightly flammable	Slightly flammable	Slightly Combustible	Highly Combustible

New Refrigerants Lineup with Low Environmental Impact

✓ At the Osaka Expo, our products were adopted by Seven-Eleven as environmentally friendly next-generation refrigeration units.

✓ Currently promoting adoption in air conditioning systems for future applications. (Mass production facilities are also under consideration)

Freezer units equipped with new refrigerants adopted at Seven-Eleven stores at the Osaka Expo

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First, let me explain again about refrigerants.

Refrigerant is an important material that determines the performance and environmental impact of air conditioning equipment, and is like the ''blood of the equipment.'' Since the past, the Chemical Division has been responsible for production, development, procurement, and reclamation, contributing to the air conditioning business.

The background of refrigerants is the trend of international environmental regulations. HFC refrigerants, R410A, R32, etc., which have been widely used as substitutes for CFC and HCFC, ozone-depleting substances, have the problem of high GWP. In response, the 2016 Kigali Amendment to the Montreal Protocol introduced a framework for phasing out the production and consumption of HFC refrigerants. Although reduction schedules vary by region, such as the United States, Europe, and Asia, this is a major turning point and will require a shift to low-GWP refrigerants in many parts of the world.

As the only air conditioning manufacturer with both refrigerants and air conditioning equipment, we use our knowledge and experience to properly manage refrigerants and recover, recycle, and destroy them in order to minimize environmental impact. In addition, our strength in the development of next-generation refrigerants lies in our ability to collaborate with our users, HVAC, and Chemical, in a speedy manner.

In the development of next-generation refrigerants, as shown in the table below left, we have several refrigerants in our lineup that significantly lower the GWP from the currently used R32 and reduce environmental impact. As a safer refrigerant compared to R290 propane, we will promote adoption activities in conjunction with refrigerant conversions in various global regions.

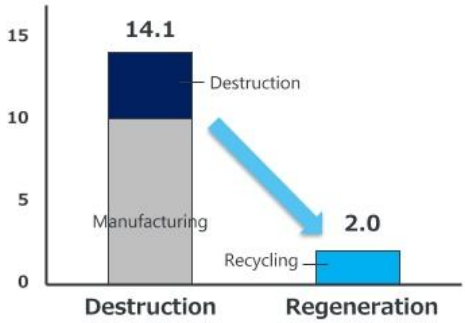
As shown in the photo on the lower right, it was used as an environmentally friendly next-generation refrigerant in 7-Eleven's chillers at the Osaka Expo, and verification tests have been completed. We are also working on adopting it for air conditioning for the future, and will expand our business by leading the market with a new refrigerant that combines environmental performance and practicality.

Gas Business: Resource Circulation of Refrigerants

- **As the only air conditioning manufacturer capable of recycling refrigerants recovered from air conditioning systems in-house**, we are actively implementing resource circulation for used refrigerants.
- **We operate refrigerant regeneration plants in Europe and Japan**. In Europe, we also recover refrigerant from third-party equipment through distributors, regenerating it into high-purity refrigerant equivalent to new refrigerant. **This business is expanding as a way to achieve environmental contributions, stable refrigerant supply, and profitability**.

Environmental Benefits

✓ Significantly reduces greenhouse gas emissions and energy consumption by recycling and reusing refrigerants instead of disposing (incinerating) them. Contributes to lowering the environmental impact of refrigerants throughout their entire lifecycle.



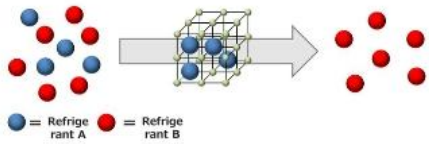
GHG Emission Comparison (for R410A)

Stable Refrigerant Supply

✓ Anticipating potential future tightening of refrigerant regulations, having an in-house recovery and recycling system is a key differentiator for the air conditioning business.

✓ At our European plant, we have successfully developed new technology using MOF (※). This achieves improved regeneration capacity with lower energy consumption and higher separation efficiency than conventional methods.
※MOF = Metal-Organic Framework, a material with a fine porous structure

Refrigerant Regeneration Plant (Germany)



Schematic Diagram of MOF Technology Installed at European Plant

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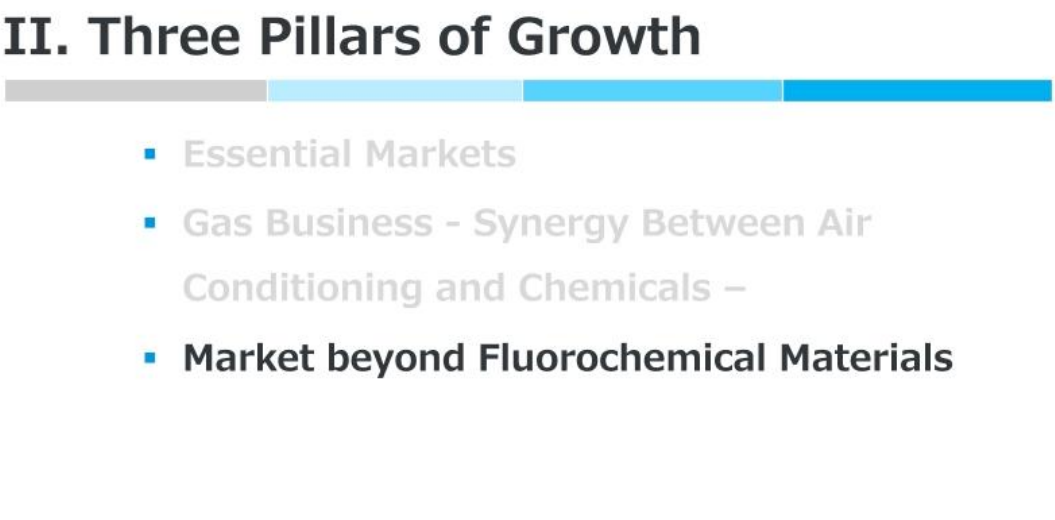
Next, I will talk about resource recycling, recovery, and reclamation of refrigerants.

Refrigerants, including HFCs, will be phased out. In addition to promoting the conversion to new low-GWP refrigerants, it will become increasingly important to effectively recover, recycle, and circulate existing refrigerants already in use in the market. As the only air conditioning manufacturer that can recycle and reuse recovered refrigerants in-house, we operate refrigerant reclamation plants in Europe and Japan.

As noted on the lower left, the recycling and reuse of refrigerants significantly reduces greenhouse gas emissions and energy use, helping to reduce the environmental impact of refrigerants over their entire life cycle.

In the regeneration process, as shown in the schematic diagram below right, MOF is being implemented in regeneration plants in Europe in collaboration with Atomis, where Dr. Kitagawa, last year's Nobel Prize winner, serves as an advisor. The recovered refrigerant is regenerated to the same high purity as new refrigerant in a more efficient facility. We will continue to expand this as a business that contributes to the environment and secures a stable supply of refrigerants, at the same time generating profits.



The third and final pillar is expanding market areas other than fluorochemical materials.

Market beyond Fluorochemical Materials: Substitutes for Existing Fluorine Products

- For applications such as food packaging and textiles, where customer needs are shifting from fluorine to the materials that do not contain fluorine**, we are developing and launching new products using hydrocarbon-based and other materials.**

Development of Alternative Materials for Existing Fluorine Products

Oil-resistant agents for ppaper made from natural ingredients (Launched in 2023)

✓ Condensing Daikin's unique technology cultivated over 50 years, it achieves excellent oil resistance while being composed of over 50% naturally derived ingredients.

Hydrocarbon-based film processing aid (Launched in 2024)

✓ Achieves superior finish (transparency) and production efficiency equivalent to fluorine-based products. Has obtained FDA and EU approvals, particularly for food contact applications.

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First, we will explain the development of alternative materials for existing fluorine products.

There is a growing need for fluorine-free materials for some applications, such as food packaging materials and textiles. To meet these needs, we are developing and launching new products, such as hydrocarbon-based products, and expanding our portfolio.

The oil-resistant agent for paper on the left is a product made primarily from naturally derived ingredients. This has been widely adopted for environmentally friendly food packaging materials since its launch in 2023.

The hydrocarbon-based film processing aid on the right is a new product launched in 2024. It offers transparency and production efficiency equivalent to its fluorochemical-based alternatives and is FDA and EU certified, especially for food-contact applications.

Thus, we will continue to develop alternative materials, viewing market demands as new pioneering opportunities.

Next, I would like to talk about business expansion into high-functional materials other than fluorochemical materials.

While leveraging the materials development technology and customer base we have cultivated to date, we will expand our lineup of high-performance materials and broaden our business domain beyond fluorine through alliances, collaborations, and M&A.

As shown on the left in the bottom row, we are developing composite materials mixed with high-performance materials, fillers, and fluorine, and acquiring processing technologies in response to customer needs for higher functionality. We have developed products using our proprietary dispersion technology, such as PPS composites with low cost and high mechanical strength, as well as PEEK composites developed by improving conventional PEEK, which is high in strength but rigid. A portion of this material is used in air conditioning equipment, and we will continue to develop this business with a focus on priority markets.

We will also accelerate the expansion of our business domain and technological base through industry-academia alliances and strategic alliances, without sticking to our own. We will strive to become a leading company of high-functional materials indispensable for the development of advanced industries.

III. Business Foundation Supporting Growth

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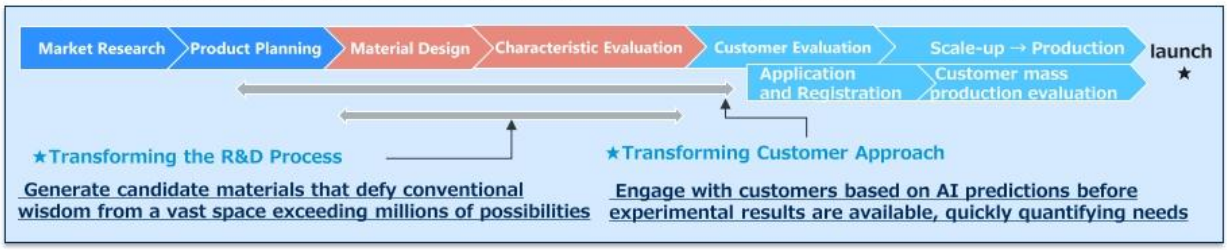
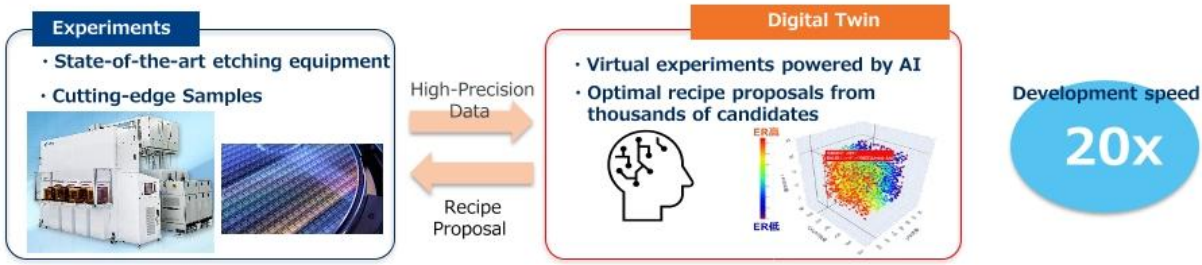
Next, I will explain an example of a business foundation for realizing our growth strategy.

Digital Transformation in R&D

- By using development DX to enhance market research, customer approaches, and product design, we will accelerate R&D with new ideas/materials through **digital transformation in R&D processes**.
- **Through partnership with the University of Tokyo**, we will innovate technologies including Material Informatics (MI), machine learning, and simulation.
- **We will achieve development speeds 20x faster** by building data pipelines (accumulating massive experimental data) and introducing automated experimental equipment.



[Case Study: New Dry Etching Gas Development and Processing Recipe Proposal]



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With the development of DX, we are transforming the very way we conduct research and development.

By utilizing material informatics and AI to predict performance prior to experimentation, we have accelerated development speed by approximately 20 times. We are able to interact with customers as quickly as possible based on AI predictions to grasp customer needs as early as possible. This has given us a competitive advantage in areas such as materials for next-generation semiconductors, where we are in a race against time.

Safe and Stable Manufacturing

- **Since 2005, we have modernized manufacturing through production innovation and digital transformation (DX).**
- We have consolidated manufacturing expertise at the Integrated Production Center (IPC) while enabling global sites to connect and continuously innovate.

Kashima Plant Integrated Production Center (IPC)

Awarded "Plant of the Year 2023", the international prize recognizing DX in the process industry.

This is the world's first case enabling real-time detection of equipment abnormalities by AI-monitoring previously ignored internal data from instrumentation devices (HART signals) and process data.

Daikin Fluorochemicals (China) Co., Ltd. Integrated Production Center (IPC)

Swiftly achieved China's own reform with Japanese manufacturing practices.

Set good practices for the industry with China's Class 1 Safety Certification and Smart Factory Certification

Built the second factory in 2023 which optimized existing human resource (implementing 100 man-hours worth of reforms in a short period).

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Safe and stable operations in the manufacturing division are an important foundation not only for cost competitiveness but also for customer trust.

In the manufacturing division, we started production innovation efforts in 2005, following the lead of Daicel Chemical. By reducing unreasonableness and waste in chemical plant operations and standardizing the decision-making flow, we achieve safe, stable, and highly efficient manufacturing. Through this production innovation initiative, we have tripled human productivity at our manufacturing facilities in Japan.

Furthermore, IPC, an integrated production center now equipped with digital technology, was built in 2021 at the Kashima Plant in Japan. Here, anomaly detection using process data and AI won an international award as the world's first such initiative in a chemical plant.

In 2022, we built another IPC at our China site, and through horizontal deployment of Kashima Plant's efforts and China's own reforms, we were able to double our productivity in a short period of two years. In addition to efficiency improvements, we were also the first company to obtain safety class one certification and smart factory certification from the Chinese government. These efforts have been highly evaluated externally as a model for chemical manufacturers in the same industry.

Under FUSION 30, we will operate integrated production centers at the Yodogawa Plant and in North America, and by consolidating the knowledge of our global bases, we will further improve productivity and take on the challenge of globally connected manufacturing.

IV. Environmental Initiatives and Regulatory Compliance

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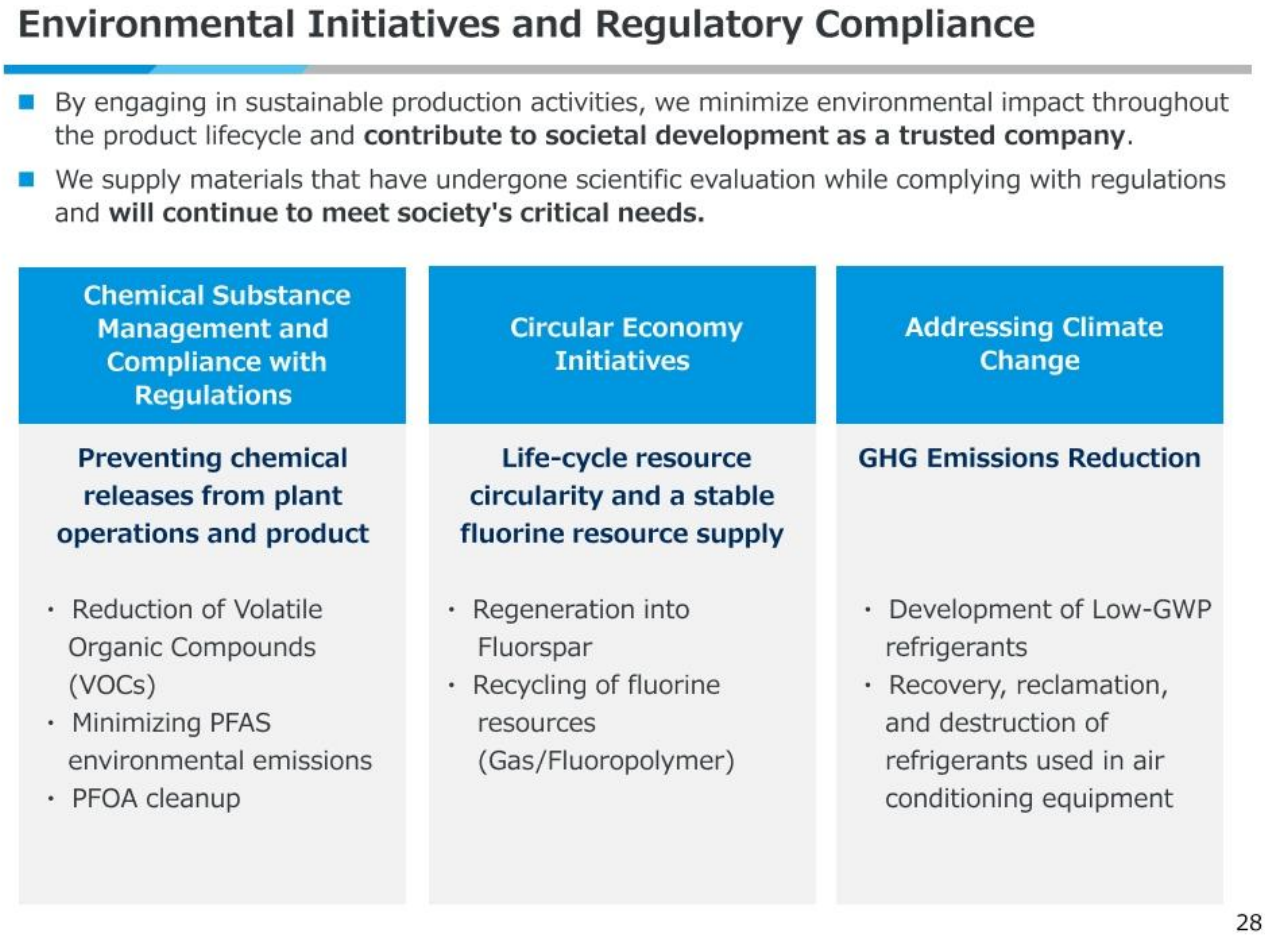
From here, I will explain our environmental initiatives and regulatory compliance.



We challenge ourselves to reduce the environmental impact of our products throughout their lifecycle through sustainable production activities. Through these efforts, we hope to contribute to the development of society and be a company that continues to be trusted by everyone.

Our response to environmental regulations is also important to us, not only to comply with the law, but also to deliver materials that have gone through scientific evaluation while complying with regulations. We will continue to anticipate the changing needs of society while balancing business growth with environmental considerations.

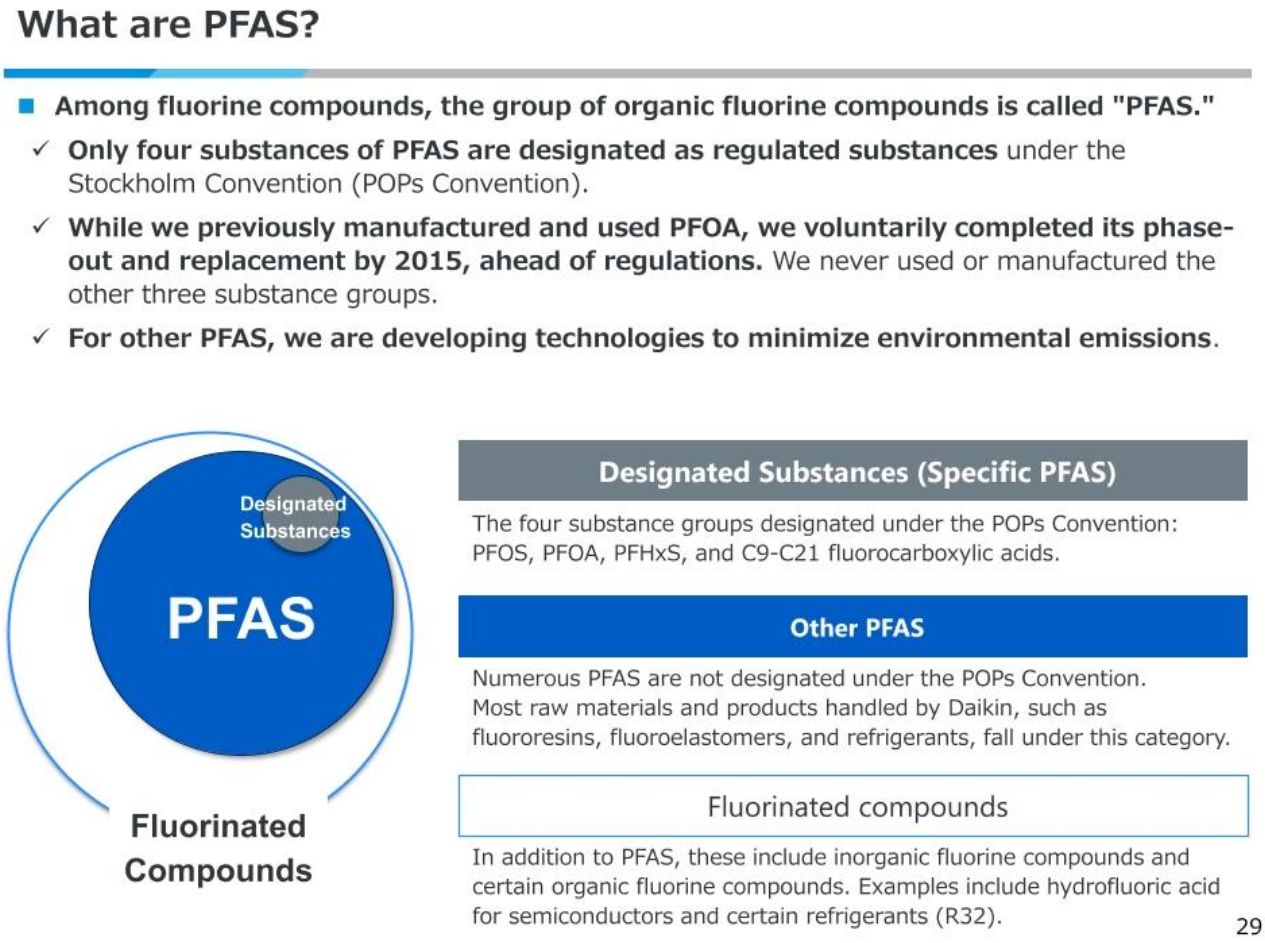
From here, I would like to introduce our initiatives under three themes.

The first is chemical substance management and compliance with regulations. Thorough controls are in place to prevent the spread of environmentally harmful substances from our products and factories. We are continuously working to reduce volatile chemicals, minimize PFAS emissions to the environment, and clean up PFOA.

The second is circular economy initiatives. In order not to waste limited resources, we are strengthening the recycling of fluorine resources. We contribute to a sustainable society by reusing gas and resins and building a resource-recycling system.

The third is addressing climate change. As I explained earlier, in order to reduce greenhouse gas emissions, we are not only developing and promoting the use of low environmental impact refrigerants, but also taking responsibility for the recovery, recycling, and destruction of used refrigerants.

The following slides show the concrete results of these efforts.



First, to better understand our commitment to PFAS, I would like to briefly explain what PFAS are.

PFAS is a generic name for organic compounds containing fluorine, and it is said that there are more than 10,000 types of PFAS in the world. However, not all of them carry the same risks.

PFAS, regulated under the Stockholm Convention, the so-called POPs Convention, an international regulation, are limited to just four substance groups, including PFOS and PFOA.

Although we manufactured and used some PFOA in the past, we voluntarily eliminated all use of PFOA by the end of 2015, before the regulations began, and have completed the substitution. We have not manufactured or used the other three substance groups in the past or at present.

On the other hand, other PFAS are used in fields essential to society, such as semiconductors and medical equipment, and these PFAS have the characteristic of being difficult to replace. We are developing technologies and implementing measures to minimize emissions into the environment, taking into account scientific assessments and regulatory trends.

In addition to PFAS, there are inorganic fluorine compounds, which include our important product groups such as hydrofluoric acid and refrigerants used in semiconductor manufacturing.

In this way, we ensure responsible management based on international regulatory frameworks and scientific assessments.

PFAS Regulatory Trends in Each Jurisdiction

- **The proposed regulation in Europe is shifting toward a more pragmatic approach** from a comprehensive one based on the precautionary principle due to strong opposition from customers, industry associations, and government agencies that emphasized the indispensability of PFAS.
- The initial proposal would have made fluoropolymer manufacturing in Europe practically impossible. However, an option has been formally added to the proposal that **allows for the manufacture and use of PFAS, including fluoropolymers, in facilities that meet certain emission conditions**.

	Europe	United States (Federal)	United States (State)	Japan / Other Regions
Basic regulatory approach	Proposing broad regulation on the manufacture/use of PFAS under the precautionary principle (*)	Conducting risk assessments and reviewing indicidual chemical through environmental surveys and emissions.	Some states adhere to the precautionary principle; others are based on risk assessment.	Revising their domestic laws based on the UN Stockholm Convention
Regulatory trends	REACH: The proposed regulation in Europe is shifting toward a more pragmatic approach from a comprehensive one. An option has been formally added to the proposal that permits the manufacture and use of PFAS under certain conditions.	TSCA: Data collection rules for specific PFAS information will come into effect.	PFAS legislation has gained momentum in some Democratic-leaning states. However, due to lobbying by industry, there is a tendency for regulations to be scaled back from blanket restrictions to those targeting consumer applications. e.g., Maine, Minnesota, New Mexico	No movement toward comprehensive regulation of PFAS

Note: REACH / Registration, Evaluation, Authorization, and Restriction of Chemicals; TSCA / Toxic Substances Control Act

(*) Precautionary Principle: A risk management strategy that advocates taking preventive measures in advance, considering cost-effectiveness, even when sufficient scientific certainty regarding causality is lacking, if serious and irreversible risks to human health or the environment are anticipated.

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In this section, I will explain the global regulatory trends surrounding PFAS.

First, let me explain the proposed PFAS regulations being considered in Europe. The original proposal was such that it would be virtually impossible to manufacture fluoropolymers and fluoroelastomers in Europe. However, the debate is changing, with many customers, industry associations, and government agencies saying that certain PFAS are indispensable to society.

Today, there is a shift away from blanket regulation based on the precautionary principle and toward a more realistic direction based on the realities of industry. Specifically, the option was officially added that if factory emissions meet certain criteria, the production and use of PFAS containing fluoropolymers can continue. We are committed to both compliance with regulations and business development by advancing the sophistication of our emissions management.

The table at the bottom of the slide summarizes the regulatory framework and status in Europe, the US, Japan, and other regions. We are in dialogue with regulatory authorities and industry associations in various countries to contribute to the development of realistic regulations and take measures to minimize the impact on our own business.

In the slides that follow, we will introduce specific initiatives that we are actually undertaking in this regulatory environment, such as wastewater treatment and destruction technologies.

Daikin's Technology

- **We have already achieved the emission control standard proposed under EU regulations.**
- Furthermore, we are executing upfront investments and R&D **to ensure stable business operations and supply systems.**

Recovery of PFAS from wastewater

UF Membrane

Removal of Water-soluble resin removal in wastewater

RO Membrane

Volume Reduction and Filtration Concentration

Ion Exchange Resin

PFAS Adsorption Removal

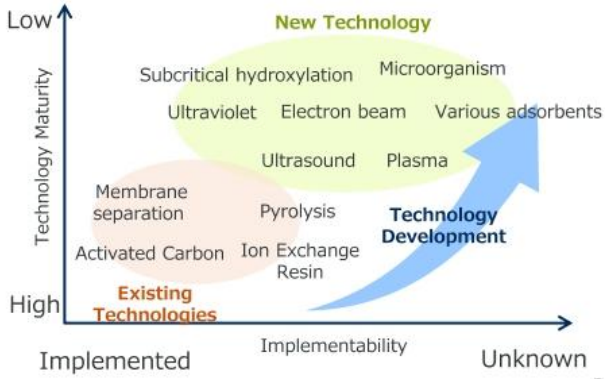
We are promoting PFAS recovery from wastewater at our global manufacturing sites. In the US and Europe, 99% recovery of polymerization emulsifiers from fluoropolymer manufacturing processes has already been achieved, which meets the standard currently proposed under EU regulations.

We are currently working toward a 99.9% recovery rate of PFAS from wastewater at all sites. Achieving this will establish a new benchmark for PFAS manufacturing.

Development of PFAS Destruction Technologies

We are focusing on the development of PFAS destruction technologies. We are accelerating R&D through partnership with other industry/academia to develop technologies implementable in real-world wastewater treatment.

While PFAS destruction technologies are being widely studied, we aim to establish solutions that achieve both practical applicability and high efficiency.



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As explained in the previous slide, we expect to be able to continue manufacturing certain PFAS by strictly controlling emissions. We have taken a proactive approach not only to comply with regulations, but also to prevent the spread of chemical substances into the environment. Therefore, we believe that the impact of the regulation on our chemical business is limited. We will continue these efforts to ensure stable business operations and supply systems.

Here are some specific measures to prevent spread to the environment.

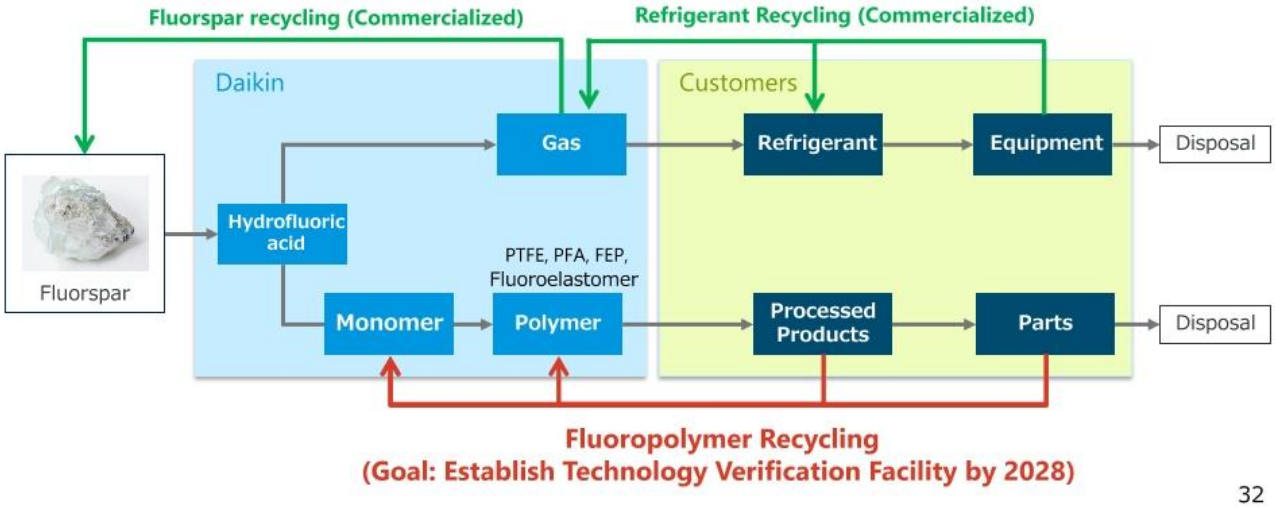
Our manufacturing plants combine several advanced treatment processes to efficiently remove PFAS. In the fluoropolymer production process for the US and Europe, 99% of PFAS in wastewater has already been recovered at all plants, thus meeting the emission control line of the proposed European regulation. In addition, we are currently challenging further advanced treatment with the goal of removing 99.9% of PFAS at all of our global plants.

We are also working to develop advanced technologies to break down PFAS. We are investigating various methods, such as ultraviolet light, electron beam, and plasma treatment, to establish a technology that is both practical and efficient. Through demonstration testing, we will determine the optimal solution and proceed to install equipment as needed.

Our goal is not only to comply with regulations but also to minimize our environmental impact and deliver our products to society with industry-leading technology. We will continue to take on challenges as we look toward the future.

Fluorine Resource Recycling

- **We aim to recycle all fluorine materials in the future** by developing recycling technologies to achieve both resource circularity and supply stability.
  - ✓ To ensure sustainable growth in the fluorine business and a stable supply of fluorine resources essential for advanced industries, we are promoting the development and practical application of recycling technologies.
  - ✓ We recover refrigerants used in air conditioning equipment and Off-gases from our own factories, recycling them into fluorspar and refrigerants. For fluoropolymer resins, we are prioritizing technological development and advancing the establishment of a recycling model for practical application.



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Next, I will explain about fluorine resource recycling.

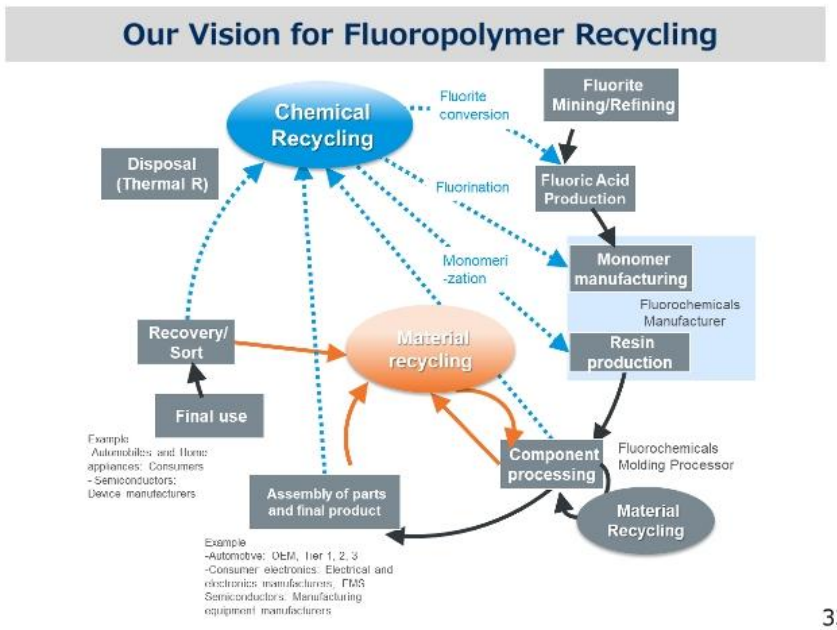
In order to ensure a stable supply of resources while circulating them, we have positioned fluorine resource recycling technology as an important theme. Fluorine is an essential material for advanced industries such as semiconductors and electric vehicles. However, resources are limited. Establishing recycling technology is essential for sustainable business growth.

We have established a system for recovery and recycling throughout the entire value chain, from fluorite to hydrofluoric acid, monomers, polymers, and products, as well as end-of-life products, refrigerants, and gases, with the goal of recycling all fluorine materials in the future. We have already implemented recycling projects for refrigerants and some resins, and we are developing technologies to circulate even more fluorine materials.

The next slide will introduce specific initiatives for fluoropolymer recycling, which is at the core of our efforts.

Fluorine Resource Recycling: Fluoropolymer

- ✓ We collect waste and cutting scraps generated during molding and processing, regardless of whether they are from our own or other manufacturers. **For some fluoropolymers, we have commercialized the collection, regeneration using our own facilities**, and **sale of regenerated products**.
- ✓ We are currently developing technologies to recycle all other fluoropolymers. **Aiming for 2028, we will construct the first technical verification facility (PTFE chemical recycling)** and advance **model development for future practical application and business expansion**.



We recover some fluoropolymers from waste materials and scraps generated in the molding and processing process, regardless of whether they are our own products or those of other companies. As shown in the photo on the left, we have already started a business to recycle and process them in our own facilities and sell them as recycled products.

Our next goal is to recycle all other fluoropolymers. In particular, we are making preparations for a full-scale recycling facility for fluoropolymers, with the goal of having a facility for technological verification in operation by 2028.

The figure on the right shows the overall picture of fluoropolymer recycling that we aim to achieve. We envision a recycling model in which used parts and materials are collected, recycled back into raw materials, manufactured into resin again, and ultimately returned to the same market. Collaboration throughout the supply chain, including molding and processing manufacturers and collection and reclamation businesses, is essential to this model. By contributing to the circular economy, we hope to enhance the environmental value of fluorine materials as an environmentally advanced company.

Thus, by combining appropriate regulatory compliance with PFAS, environmental impact reduction through wastewater treatment and destruction technologies, and resource recycling of fluorine, we will achieve both the environment and business growth. We will continue to challenge ourselves for the future.

Conclusion

Fluorine materials play an important role in realizing a decarbonized society. They are used in essential societal applications such as semiconductors, automobiles, telecommunications, medicine and medical devices, energy and, air conditioning/heat pumps/refrigeration.

Our Chemicals business is a pioneer that first tackled fluorochemicals in Japan. Moving forward, we will continue to grow as a leading company, supplying fluorine materials that have undergone scientific evaluation while complying with regulations, thereby meeting society's critical needs.

As the only company in the world dedicated to manufacturing both air conditioning systems and refrigerants, we will develop refrigerants and equipment, collaborating between our air conditioning and chemical businesses. We will minimize environmental impact throughout the product lifecycle and contribute to societal development as a trusted company.

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Finally, I would like to share with you a message from our CEO, Mr. Togawa.

Fluorine materials are indispensable for the realization of a decarbonized society and the development of advanced industries.

As Japan's first pioneer in fluorine chemistry, our chemical business has supported the development of industry. We will continue to supply materials based on scientific evaluation while complying with regulations, and aim for sustainable growth by meeting the important needs of society.

As the world's only comprehensive air conditioning manufacturer that handles both air conditioning and refrigerants, we will promote the development of refrigerants and equipment through collaboration between the air conditioning and chemical businesses, minimize environmental impact throughout the life cycle, and contribute to social development as a trusted company.

Thank you for your attention.

Question & Answer

Monri [M]: Thank you, Mr. Hiraga. We will now move on to the question-and-answer session.

First, we will answer questions from those physically participating, then we will answer questions from those participating online.

Please note that due to the large number of participants, we will limit the number of questions to two at once.

Mr. Sasaki, who is physically attending the meeting, please proceed.

Sasaki [Q]: Thank you very much for your very valuable talk today. My name is Sasaki from UBS Securities. Let me ask you two questions.

First, I would like to know about the concept of next generation refrigerants described on page 19. As you know, I think the performance of a refrigerant is determined by its GWP value, safety and cost. According to what your company has told us so far, the performance balance of the R32 is high in total. Today's description presents several candidates for the next refrigerant. When considering the next refrigerant after R32 in the future, could you please tell us which of the four shown in your presentation is the most promising as the next refrigerant? What are the characteristics of each refrigerant, if possible, such as what are the prevailing characteristics of each?

In addition, I believe that the US is in the process of switching to R32 refrigerant for air conditioning right now. It would also be helpful to know when the next generation refrigerants as indicated in the document will be commercialized and enter the dissemination phase.

Hiraga [A]: Thank you for your question.

Page 19 shows the next-generation refrigerants that will replace R32. In reality, there are various regulations and standards in each country, and it is not possible to organize them in a single concept. We are now preparing four of the fluorinated refrigerants listed in the document as next-generation refrigerants. In addition to these four, we are preparing several others.

It is difficult to answer which one is the most promising next-generation refrigerant. There are many different types of air conditioning. For example, there are air conditioning systems for car air conditioners, stationary air conditioners, and freezing and refrigeration. Each refrigerant is used in a different temperature range, etc., and one refrigerant cannot be used for all applications. So, we are now preparing a variety of refrigerants in this way.

Does that answer you?

Sasaki [Q]: For example, your company's main business is air conditioning, such as residential air conditioning and applied. For residential HVAC and Applied, which of the four refrigerants listed in the document would be used? I would love to understand.

Hiraga [A]: We are now considering various refrigerant candidates in the air conditioning business. Of those, for example, 479A and 479B would be candidates.

Sasaki [Q]: I think the GWP values for 479B or 479A are as stated in the document. What are the characteristics of these? If you can tell us at this stage which refrigerant is actually better suited for Applied and residential air conditioning and in what ways is it better than R32, please let us know.

Hiraga [A]: I can't talk too much about technical matters. As I mentioned earlier, the composition of our refrigerants changes slightly depending on the temperature range in which they are used.

Sasaki [Q]: I understand very well. Thank you very much.

Second, could you please tell us a little more quantitively about the sales growth described on page six? I understand well how it grows from the explanation you gave us. On page six, the market itself is projected to increase by 1.2 times. If your company's sales of JPY285 billion become approximately JPY400 billion, it would be a 1.4-fold growth. So, sales growth is expected to be approximately double the market growth.

I understand that the strategy you described is to grow the business. In response to the 1.2x market growth, could you be more specific and tell us quantitatively in which areas of your company sales growth will outpace overall market growth?

For example, the semiconductor field mentioned here will grow, or gas in the air conditioning field will grow. It would be helpful if you could be more quantitative.

Hirao [A]: I will answer your question.

As noted slightly on page 13, we are projecting a growth of about JPY100 billion from JPY140 billion in 2025 to JPY240 billion in 2030, as expansion in the essentials market. Among other things, the semiconductor market is expected to double, and we expect it to grow even faster than that. As for information and telecommunications, including cables for data centers, growth is expected to be about JPY100 billion. In these growing markets, we will greatly increase our profits.

Sasaki [Q]: As you mentioned on the slide, your company is strong in semiconductor manufacturing equipment and PFA. Is it that the market for semiconductors itself has high growth potential and that you can increase your sales in essential markets to increase your market share in this field?

Hirao [A]: You are right. Particularly for semiconductors, naturally, as the production of chips increases, the sales of those used as process materials will also increase. We believe that the growth of etching gas and sealing material-related products in the semiconductor aftermarket will be a major growth engine.

Sasaki [Q]: I understand very well. Thank you very much.

Monri [M]: Mr. Fukuhara, please.

Fukuhara [Q]: My name is Fukuhara from Jefferies Securities. Thank you very much. I too would like to ask about the concept of sales.

Regarding the target of JPY400 billion in sales by 2030, which is written on page seven, how confident are you within the Company that you can achieve this JPY400 billion goal? Also, do you think that additional capital investment, for example, is necessary to increase the current JPY280 billion to JPY400 billion?

Hirao [A]: Toward JPY400 billion, in terms of production capacity, we have already made decisions and are executing investments. Specifically, we are moving forward to increase capacity at our Kashima Plant in Japan and in China by 2027 and 2028. Thus, we are establishing a solid production system in place to reach JPY400 billion.

Indeed, the semiconductor market has been said to be growing, and we ourselves have been predicting considerable growth since last year, but this has been delayed by one to two years. However, from what I have heard from various voices in the semiconductor industry, I believe that the market will grow in the future.

On the other hand, there are also risks in relying solely on semiconductors for growth. Therefore, as I explained earlier, we plan to expand our business in the future in high-value-added fields with high profitability, including medical applications, even if the scale of sales is small.

Fukuhara [Q]: Understood.

Let me ask. What percentage of this JPY400 billion do you consider to be organic growth and M&A?

Hirao [A]: We expect all of the JPY400 billion to be organic growth.

Fukuhara [Q]: Understood.

I would like to ask about the comparison with competitors on page eight. What criteria do you use to evaluate the products with circles and double circles in the table above as superior to other companies? What is it that only your company can do compared to the competition?

Hirao [A]: The double circle is mainly those that have almost 50% market share. As for elastomers, we can handle everything from raw materials to processing, including O-rings for semiconductors, through two companies, one of them being another and the other being us.

Monri [M]: Mr. Maekawa, please.

Maekawa [Q]: My name is Maekawa from Nomura Securities. Thank you for your explanation. Let me ask you two questions.

First, I would like to ask about PFOA. This time, you explained your efforts in wastewater treatment and recycling. There is also the issue of how to recover what has been discharged into the environment because of the use of these products in the past.

Personally, I don't think it is very easy to recover what has been discharged. In considering this issue, I believe that dialogue with residents and cooperation with the government will be necessary. What kind of dialogue or collaboration do you have both domestically and internationally?

Washino [A]: Thank you for your question. I will answer your question.

PFOA was used in the past, but is not used at all now. We have not used PFOS at all from the past. To prevent the discharge of PFOA, the Yodogawa Plant is surrounded by a barrier wall to prevent the discharge of PFOA, and groundwater is being pumped up to purify it. This concept is not limited to Japan. We have a global presence and are in the process of implementing similar cleanup measures in France, the US, and China, for example.

Regarding dialogue with local residents, we have been holding briefing sessions, and we also set up a consultation service on our website last July to listen to the voices of local residents.

Maekawa [Q]: Thank you very much.

I believe you mentioned pollution mediation at the end of the year. I would appreciate it if you could mention, if you don't mind, what kind of requests you are receiving and how you are responding to them.

Washino [A]: We know through the press that the pollution arbitration was filed at the end of December. We have received requests for information disclosure on environmental initiatives, health surveys, etc., although the content is on a press basis.

As I mentioned earlier, we will continue to take action based on the environmental measures we have taken in the past and the Ministry of the Environment's policy that no health damage have been confirmed.

Maekawa [Q]: Understood. Thank you very much.

Second, I would like to ask your thoughts on the overall performance of the chemical business. The growth story was very clear. However, from what I have seen in the past, it seems that performance is quite volatile depending on the business environment. Also, this may be a generalization, but I feel that your company's performance moves a little slower than the cycles of automobiles and semiconductors.

As far as you have disclosed, the marginal profit margin is high, so I presume that the impact of sales fluctuations is significant. Have you established any mechanisms to reduce such fluctuations? I would also like to know what approaches could be taken to produce stability in performance, as well as growth strategies.

Hiraga [A]: As I mentioned briefly in my explanation, in semiconductors, our performance is very strong, especially when manufacturing equipment is built. Since we are a raw materials manufacturer, the very end of the cycle affects the ups and downs of our sales and profits.

In light of this impact, within semiconductors, as Hirao mentioned earlier, we will increase our portfolio of materials such as process materials, which are consumed when semiconductors are manufactured. This applies to O-rings and dry gas. By increasing this field, we will create a structure that will allow us to generate as much stable earnings as possible in the semiconductor field as a whole, even though our performance is affected by the semiconductor cycle, and we will also increase our portfolio outside of semiconductors. By doing so, we hope to reduce performance fluctuations as much as possible and work on FUSION 30.

Maekawa [Q]: Understood.

The Company handles a wide variety of products, some of which are for the automotive field, but the semiconductor field is still highly profitable and the Company has been affected by this. However, as you mentioned earlier, you intend to mitigate performance fluctuations a little by expanding into other areas, such as medical. Is that what you mean?

Hiraga [A]: We think so.

Maekawa [M]: Thank you very much.

Pan [Q]: Thank you for your explanation. My name is Pan from Macquarie Capital Securities. I would like to ask two basic questions.

First of all, I would like to ask you to give us an approximate figure on the scale of sales for the semiconductor market. I would like to know the ratio of process materials to materials for manufacturing equipment and the ratio of after-sales business among them.

Hirao [A]: Roughly speaking, first of all, the ratio of materials for the semiconductor market to total sales of the chemical business as a whole is about a little less than 30% at present. We hope to raise this to about 40% by 2030. As for the ratio of process materials to sales of materials for the semiconductor market, we would like to stabilize our business with a target of 40%.

Pan [Q]: So, 40% is for process materials and the remaining 60% is for manufacturing equipment?

Hirao [A]: Until now, our strength in the semiconductor market has been in products used in semiconductor manufacturing equipment. However, we would like to increase sales of materials that are consumed in the production of semiconductor chips, such as etching materials used to shave semiconductors and fluoroelastomers used as replacement parts for etching equipment, and increase the ratio of such materials to 40% in the future.

Pan [Q]: Understood. Is there any need for additional investment, for example, to build a plant in the US to increase the percentage of process materials?

Hirao [A]: We are already proceeding with the expansion of production capacity for process materials. Although the US market is large in scale, many major manufacturing equipment and parts manufacturers are located in the Asian region, including Japan and South Korea. Therefore, we believe that the first basic course of action is to strengthen our operations in those areas.

Pan [Q]: Thank you very much.

Second, I would like to ask about the growth of the overall semiconductor market and your company's value-added growth. I would like to know if there are any trends, such as the doubling of the amount of your materials used in one semiconductor manufacturing equipment.

Hirao [A]: Semiconductors are getting finer and multi-layered as shown in NAND. So, naturally, the frequency of cleaning and etching has increased. In this sense, we believe that market volume will increase in the future.

Pan [Q]: Finally, I would like to check some detailed figures. According to page six, the size of the semiconductor market is expected to grow from USD5 billion in 2025 to about USD6 billion in 2030. On the other hand, in the explanation given earlier, there was talk of the market expanding 1.5 times its current size in 2030 and doubling its current size in 2035. Could you please reorganize this again?

Ogawa [A]: I will answer.

The figures on page six show the overall size of the market where fluorine materials are used, including those we do not handle.

Among these, we expect the market for our core products, which are our strength, and the market for areas where we will work on development and capacity expansion, to grow at the rate I mentioned earlier.

Pan [Q]: Will the scale be 1.5 times larger in 2030 and two times larger in 2035 than in 2025?

Ogawa [A]: Yes.

Pan [M]: Thank you very much. Very helpful.

Monri [M]: Thank you very much.

Mr. Isayama, please proceed.

Isayama [Q]: My name is Isayama from Goldman Sachs. Thank you very much.

I too would like to ask the scale of the business first. If you are saying that semiconductors will account for about 30% of the JPY280 billion in sales in 2025, does that mean that about half of the JPY140 billion in sales from essential markets you mentioned on page 13 will be for semiconductors? Similarly, what percentage of

your total sales was for telecommunications in 2025? Also, do you think that the profitability of the essentials business is basically higher than the profitability of the entire company?

In the description of semiconductors and telecommunications, it says that low particles and ease of processing are your company's technological advantages. I would like to know the fundamentals of why your company has this kind of technological superiority in the midst of so many competitors, including specialized manufacturers.

Hirao [A]: Thank you very much.

The sales figures for the essential businesses on page 13 are not the sum total of the individual results and targets accumulated for each market, such as for semiconductors and information and telecommunications. Of course, we have internally set challenging targets for each individual market, but please understand that the overall sales of the essential businesses are a summary of these targets.

As for profit margins, as you mentioned, please understand that the essential markets are a product group with profit margins above the average margin of the overall chemical business.

Hiraga [A]: Regarding competitive advantage, I think our process and production technology are the first things to be mentioned. In addition, we provide customer-oriented technical services and a stable supply of products, which is the result of our continued investment in equipment during the COVID-19 pandemic. We believe that these factors collectively contribute to the trust we earn from our customers and lead to our competitive advantage.

Isayama [Q]: Thank you very much.

Of the JPY140 billion in sales for the essential businesses in 2025, how much is from semiconductors and telecommunications? Also, how much of the JPY240 billion target for 2030 is for semiconductors and telecommunications, respectively?

Hirao [A]: The combined share of semiconductors and telecommunications is about 40% at present. We have set a goal of raising this to 50% by 2030.

Isayama [Q]: What you just mentioned is the percentage of sales of the essential businesses?

Hirao [A]: Yes.

Isayama [Q]: Do you also have commercial products for the semiconductor and telecommunications fields that are not essential?

Hirao [A]: No. Products for the semiconductor, automotive, information and telecommunications, and medical sectors are included in the essentials businesses.

Isayama [M]: Thank you very much.

Second, please tell us what is the actual value of profitability of the chemical business right now. It is quite volatile, but since the profit margin was close to 20% in FY2023, I feel that the 20% goal is achievable. Since there are quite a few fluctuations due to the product mix and the impact of raw material prices, I would like to ask about the profitability potential of the chemical business in the long run.

Because of the high marginal profit margin, it seems to me that even with high fixed costs, with sales of JPY400 billion, the profit margin would be higher than 20%. Do you still consider about 20% to be the max, since 20% in FY2023 is rated as too much in the first place? I would very much like to hear your thoughts on profitability.

Hirao [A]: Very difficult question. From FY2022 to FY2024, when profit margins were close to 20%, the market for fluorine refrigerants shrank due to refrigerant regulations, especially in Europe. Among them, the profit contribution of refrigerants was very high due to the thorough implementation of selling price policies, as market prices were soaring.

On the other hand, we have also been targeting a profit margin of 20% or more for the semiconductor market. While market trends play a significant role, we believe that we can secure an operating margin of 20% or more based on the assumption that the semiconductor and data center markets will continue to expand until 2030.

This is a product with a high marginal profit margin, and we would like to increase production volume. To this end, we are committed to developing and supplying products with competitive advantages on a daily basis.

Isayama [Q]: Thank you very much.

I looked at the results from FY2022 to FY2024 and wondered if you could aim for a profit margin of 25% or 30%. So, from a practical standpoint, 20% profit margin is also a reasonably aggressive target, and should be viewed as a number that is not impossible to achieve through improved product mix and volume expansion.

Hirao [A]: We would like to aim for it as a challenge goal. However, this will naturally depend on how tight the market is, and we will make our decision accordingly.

Hiraga [A]: The competition will not remain silent for the next five years, and we also believe that it will be quite difficult to maintain and improve our prices in such a situation. As you say, please consider a profit margin of 20% to be a somewhat aggressive figure.

Isayama [Q]: Is the current competition Chemers or AGC?

Hirao [A]: Currently, yes.

Isayama [M]: I understand very well. Thank you very much.

Monri [Q]: Thank you very much, Mr. Isayama.

I think two people raised their hands earlier, Mr. Taninaka and Mr. Hotta.

Mr. Taninaka, please.

Taninaka [Q]: My name is Taninaka from SMBC Nikko Securities. Let me ask you two questions.

I am sorry to be uninformed, but I would like to ask you about sustainability in procurement in light of the recent risk of Chinese export controls. I believe the majority of fluorine raw material, fluorite, is still procured from China. What initiatives have you taken in the past few years in procuring raw materials, such as shifting to sourcing from Mexico? As a result, how much has the percentage of procurement from China decreased? This is a question based on the fact that there may be a risk of a significant impact on Japanese industry as a whole over the next few years.

Ogawa [A]: As you mentioned, our main raw material, hydrofluoric acid, is included in the list of stricter regulations in China as a dual-use product. In addition, we manufacture the raw materials at our subsidiary in China. So, if hydrofluoric acid is regulated, it will naturally have a significant impact on our business. However, although it is currently on the list, it is permitted for its use and is not subject to regulation. So, there is no impact at the moment.

On the other hand, taking into account that we do not know what will happen in the future, in the US, all of the raw materials used in our manufacturing plants are from Mexico, and we are also sourcing from within the US. So, looking at our business as a whole, we do not have that risk in the United States.

As for Japan, we are already considering purchasing from countries other than China, such as India, Mexico, and now Spain. While it is necessary to lower the risk in terms of BCP, China has an advantage in terms of procurement costs. The ratio will be considered based on the balance between business potential and risk.

Taninaka [Q]: Thank you very much.

Second, I would like to ask again about refrigerant development in North America. Right now, the GWP of the R32 is higher than the R454B, but if you are developing the R479, I could imagine it would not be a problem if the regulations are tightened in a few years. I would then like to ask whether the development of R479 is ahead of your peers in terms of competitiveness in the next few years.

Hiraga [A]: In terms of what kind of refrigerant would be suitable to replace R32 in the next phase of regulations in the US, when the GWP limit is lowered further, we are now thinking that we will not go to natural refrigerants such as propane. We are starting to develop such refrigerants as 474A, although we may have to go to 479A or possibly even lower GWP values.

Taninaka [M]: Understood. Thank you very much. That's all from me.

Monri [M]: Mr. Tai, please.

Tai [Q]: My name is Tai from Daiwa Securities.

The first is what you mentioned earlier regarding PFAS. I am of course aware of measures such as the building of impermeable walls around the Yodogawa Plant. But I think we were told that the progress rate is not very high, say 20% or 30%. Also, I believe you were planning to invest USD300 million in countermeasures, but will that amount be enough? Will that wall really be built? Furthermore, I believe there are a number of lawsuits running in the US. What level of risk is Daikin assuming? While I understand that it is difficult, I would like to see a little more information disclosed like other companies. What are your thoughts?

Washino [Q]: Thank you very much.

As you mentioned, the impermeable walls are only about 20% complete, but steady progress is being made. It is difficult to give a specific date, but we are working hard to achieve results.

As for the USD300 million in countermeasure costs, we have production bases not only in Japan but also globally, and we are proceeding so that we can comply with the regulations in each country at each of our production bases.

As you mentioned, we are aware of the risk of litigation in the United States. In the US, we believe that the widespread use of PFOS, a compound used for foam extinguishing agents, which we did not handle, has led to significant litigation.

Since we have not dealt with PFOS at all, we believe that the risk to us is very small compared to the situation at other companies, which has been widely reported in the news. We believe that we will continue to securely implement measures concerning environmental emissions as we continue our business dealing with PFAS.

Tai [Q]: Thank you very much.

Another thing is that Daikin is the only company handling both refrigerant and air conditioning, and I would like to ask if that is a real advantage for Daikin in the future. There is no need to stop, but the burden of development is growing. I believe that your company also sells refrigerants to other companies; I think that it might be a good idea to have the option for your company to buy refrigerants from other companies in the future.

Profit margins, for example, are also far below those of US-based companies. I think there have been discussions for some time that this is both a feature and a burden, but what kind of discussions have you had internally?

Miyazumi [A]: I think it is very important what kind of assumptions we make, because refrigerant strategies cannot be discussed in binary terms. I think that purchasing refrigerants from other company is one point worth considering, as it could lower costs to some extent and increases margins.

On the other hand, as a manufacturer, it is important to deliver the final air conditioner product to the customer and to develop the refrigerant as well. That is a trade-off with margins, as you say. As we are currently formulating the next medium-term management plan, we believe that we need to make decisions on what direction to take within that time frame.

Tai [Q]: At this point, is there much chance that Daikin will buy refrigerants from other companies in the future?

Miyazumi [A]: We are currently purchasing some items, but we will be discussing whether or not to purchase from other companies.

Tai [Q]: Understood.

One more thing, do you have any update on the progress of the 474A development? I think you were talking about putting it to practical use starting next year or so.

Hiraga [A]: We have a pilot plant at our Kashima Plant, which is ready to provide samples to each company in the future.

Monri [M]: Thank you for a lot of questions. As time is up, we will conclude the Q&A session.

With that, we would like to conclude the Sustainability Briefing. Thank you very much for joining us today.

[END]

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